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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Housing Costs Boost CPI

If it's not one thing—it's another. While food price increases slowed in October, and most energy prices actually declined, housing costs shot up, pushing up consumer prices one per cent, matching September's rise. Although the advance in food prices slowed to less than one-half of September's 1.6 per cent increase, as beef and vegetable prices dropped, that encouraging sign was more than offset by accelerating housing costs. Prices of apparel and upkeep rose 0.5 per cent following September's 1.3 per cent increase, reflecting earlier-than-usual markdowns as retailers tried to move out inventory. Energy prices declined and currently stand only 3.1 per cent above prices six months ago.

The major culprit behind October's jump in consumer prices was the 1.3 per cent rise in the housing component. A 1.9 per cent advance in mortgage costs and a 1.5 per cent increase in housing prices contributed to the 3.8 per cent rise in the costs of financing a home. Although mortgage commitment rates have been going up since June, closing rates, which are incorporated in the index, continued to decline until September. Since the BLS measures mortgage rates with a lag, last month's rise was the first after three months of descent which totalled 11.4 per cent. However, the full effects of the runup in mortgage rates will probably not be felt until early 1981, reflecting mortgage rate increases posted since early fall.

Food Prices Take A Break . . .

Food prices are the most visible aspect of inflation due to their direct effect on everyone, but they hit middle- and low-income groups hardest. During the first half of 1980, low food prices moderated the rate of inflation, but during the third quarter they were the major propellant behind inflation. Accounting for about one-fifth of the retail basket of goods and services in the CPI, food prices advanced by a hefty 6.4 per cent in the past four months or 20.4 per cent at an annual rate, paced by a 10.8 per cent advance in meat prices, mainly pork and poultry.

Not unexpectedly, however, the price of beef declined in October by 1.6 per cent, as farmers cut inventories to reduce feeding costs. Feed grains were especially hard hit by the severe drought and heat last summer. This year's agricultural crop was substantially reduced and yields per acre declined by 12 per cent. The subsequent decline in production drove prices up sharply. On July 1, a bushel of corn sold for about $2.75, while last week it was about $3.45. Similarly, soybeans were $6.54 per bushel, and now they sell at close to $9.00, while the price of oats shot up by 30 per cent to $2.21 per bushel.

Soaring costs of these important feed grains, deteriorating grazing conditions, as many pastures dried up, along with other rising costs of production—most importantly interest rates—had a devastating effect on the production of livestock in general and beef in particular. As noted several months ago (Financial Digest—August 11, 1980) ranchers could not afford this expense and thus slaughtered many animals prematurely, sending larger quantities of meat to market, temporarily depressing retail prices. This clouded the longer term outlook as inventories were cut to levels substantially lower than planned, thus assuring sharply higher prices next year.

Continued large slaughter will put a lid on price increases for the rest of this year and early next year. However, reduced marketings of cattle will strengthen prices starting in the second quarter. Meat supplies will be well under year-earlier levels, as ranchers attempt to rebuild herds from the unexpectedly large depletion.

. . . But It May Be Only Temporary

Pork prices recorded a smaller advance reflecting larger numbers of hogs being slaughtered, as is usual during the fourth quarter. Demand for pork also slowed as a result of some substitution of beef—especially such cheaper cuts as hamburger—for pork, reflecting sharply rising prices of pork during earlier months. Prices slowed to a 2.5 per cent rate of rise from 5.7 per cent in August and 5.0 per cent in September.

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Pork prices are expected to shoot up as hog producers curtail their breeding inventories to avoid financial losses such as those suffered during the first half of the year. On June 1, breeding inventories were eight per cent below a year ago, and by September 1 they were reduced by another five per cent.

Poultry prices continued their rapid ascent in October—4.1 per cent—aided by sharply higher prices of turkeys during this holiday season. Significant reductions in summer slaughter of poultry cut supplies from the abundant levels prevailing during the first half of the year, when production costs outpaced revenues and farmers lost money on every pound sold. Production of broilers declined by three per cent during the third quarter with a two per cent intentional cut and a one per cent contraction due to weather induced bird losses and fewer egg hatchings. Higher retail prices for poultry are expected in 1981 despite higher broiler and turkey supplies as total meat supplies decline and continued switching to less expensive poultry is expected to occur.

Prices of fresh fruits dropped by 1.3 per cent as apples and citrus crops were harvested. Also, seasonally large supplies of vegetables depressed

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/19/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	129.045	– .554	+ 4.778
Loans to Depository Inst.	1.979	– .088	+ .115
Float	5.031	+ .693	– 2.182
Total Reserve Bank Credit	142.565	– .687	+ 4.057
Treasury Deposits with Federal Reserve Banks	3.468	+ .406	+ .253
Currency Outside Banks	120.995	+ .743	+ 9.296
Member Bank Reserves:			
Required	39.660	– 2.026	– 3.597
Excess (Deficiency)	.653	+ .249	+ .548
Total Reserves Held	40.313	– 1.777	– 3.049
Net Borrowed Reserves	1.230	– .337	– .379
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	88.749	+ 2.357	+11.712
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (11/12/80)	390.2	+ 12.0‡	+ 5.5‡
M-1B (11/12/80)	415.5	+ 14.5‡	+ 7.3‡
M-2 (October '80)	1,653.3	+ 10.8	+ 9.5
L (August '80)	2,271.8	+ 10.0	+ 9.2

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 11/28/80			
‡U.S. Treasury Bills	13.90%	13.75%	13.00%
* Federal Agencies	15.35	14.90	13.67
* Project Notes—Taxfree (46% Taxable Equivalent)	11.48	15.18	15.18
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.15	16.25	

‡Finance Company Paper—Prime

5- 14 days	15.75%
15- 29 days	16.50
30- 59 days	15.00
60-179 days	14.75
180-270 days	14.25

‡* Bankers' Acceptances

Dec.	16.90%
Jan.	16.90
Feb.	16.80
Mar.	16.55
Apr.	16.15
May	15.30

‡Industrial Paper—Prime

30- 89 days	16.75%
90-120 days	16.50

†Federal Funds Effective Rate 19.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,587	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	0.9%	– 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Oct '80n	12.0%	12.0%	12.0%
Change in Producer Prices*	Oct '80	9.6%	– 2.4%	13.2%
Civilian Employment (Thousands of Persons)†	Oct '80	97,176	97,207	97,474
Unemployment as % of Civilian Labor Force†	Oct '80	7.6%	7.5%	5.9%
Personal Income*	Oct '80	$ 2,190	$ 2,167	$ 1,981
Leading Indicators Composite Index (1967=100)†	Sept '80	133.6	130.5	140.1
Industrial Production Index (1967=100)†	Oct '80	146.0	143.7	152.7
Net Change in Consumer Installment Credit†	Sept '80	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance†	Sept '80	–$ 0.76	–$ 0.13	–$ 2.58
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Oct '80	1,569	1,545	1,710
New Construction Expenditures*	Sept '80	$ 222.0	$ 215.1	$ 235.3
Total Business Inventories†	Sept '80	$ 454.5	$ 452.0	$ 418.5
Total Business Sales†	Sept '80	$ 317.6	$ 308.0	$ 296.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

prices as the fall crop entered the market. However, production of many vegetables including potatoes is substantially lower than a year ago, so this price break is only temporary.

Higher grain and livestock prices will increase costs for food processors and retailers. They had benefited during the first half of this year from declining commodity prices which helped to offset escalating nonfood costs associated with processing and distribution. Recessionary pressures, however, have slowed the rise in these costs so far in the second half as packaging costs have decreased and gains in energy costs slowed substantially. In the fourth quarter of 1980, food price increases will be mainly attributed to higher farm values including the skyrocketing price of sugar. In October, food manufacturers paid 7.4 per cent more for their food and nonfood supplies than in September, and 31 per cent more than a year ago. This will boost prices of processed foods at retail significantly in the near future.

Buying Power Dips—Slightly

The steep hike in inflation has sharply eroded the purchasing power of consumers. Accompanying the CPI report was an announcement that real spendable

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/12/80)	103,078	+ 2,603	+11,394
New York City (11/12/80)	25,428	+ 1,045	+ 6,378
Commercial Paper (11/12/80)	126,656	+ 2,373	+16,396

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Commercial and Industrial Loans			
Nationwide (11/12/80)	169,628	+ 463	+15,631
New York City (11/12/80)	49,831	+ 238	+ 4,290
Total Loans Gross Adjusted			
Nationwide (11/12/80)	418,254	+ 707	+25,993
New York City (11/12/80)	97,042	– 975	+ 8,550

Financial Markets

	Friday 11/28/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.14%	+ .14	+ 3.30
180-Day Bills†	15.42	+ .29	+ 3.28
Longest Bills†	14.90	+ .31	+ 2.97
Recent Issues:			
12 1/8s 10/31/82	13.87	– .01	
12 1/8s 9/30/84	13.39	+ .11	
13s 11/15/90	12.68	– .44	
12 3/4s 11/15/10	12.29	– .31	
Municipals:			
Bond Buyer–20 Bond Index* (11/26/80)	9.62%	+ .12	+ 2.36
Blue List Total ($ Million)	$ 876	+ $ 44	+ $ 193
30-Day Visible Supply ($ Million)	$2,014	+ $298	+ $ 370
Total	$2,890	+ $342	+ $ 563
Corporates:			
Moody's Aa Composite (11/25/80)	13.40%	+ .12	+ 2.34
Money Mgr.–30-Day Supply ($ Million)	$4,418	– $214	+ $3,569
Stocks:			
Dow-Jones Averages:			
Industrials	993.34	+ 3.41	+ 170.99
Transportation	425.68	+ 12.08	+ 177.19
Utilities	116.94	+ .73	+ 9.33
65 Stocks	388.87	+ 4.72	+ 94.53
Standard and Poor's 500 Stocks	140.14	+ 1.03	+ 33.98
N.Y.S.E. Composite Index	81.02	+ .85	+ 20.85
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,272	–10,865	+ 13,886

* 46% Taxable equivalent 17.81%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/28/80	Week Ago
Overnight	18.50%	17.00%
1 month	18.37	17.00
3 month	18.12	16.94
6 month	17.00	16.19
1 year	15.50	15.06
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.76%	13.05%
Long Term (7 to 15 yrs.)	12.67	13.15

FOREIGN EXCHANGE SPOT RATES New York Opening (11/28/80)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03229	30.97
Canada	.8431	1.1861
Denmark	.1692	5.9090
France	.2238	4.4675
Germany	.5192	1.9260
Italy	.001092	915.30
Japan	.004615	216.70
Mexico	.04314	23.18
Netherlands	.4790	2.0875
Switzerland	.5746	1.7403
U.K.	2.3590	.4239

earnings declined. However, the picture may not be as bad as it looks. Real spendable earnings are average weekly earnings of a production worker with three dependents reduced by Social Security and Federal income taxes. They dropped by 0.6 per cent in October and stood six per cent below a year ago. Furthermore, this measure of purchasing power has not improved at all in the past 20 years.

Although this statistic is widely used, it is misleading as it grossly understates consumers' buying power. For one thing, it takes into account only heads of households, disregarding the increasing trend toward multi-income families. Second, many heads of households are now women who have recently entered the labor force and thus are making lower salaries than men. Finally, spendable earnings are deflated by the CPI, which is not a true measure of the cost of living. By contrast, another measure of buying power—total personal incomes minus taxes and inflation as measured by the PCE deflator—has more than doubled during this same time span. ■

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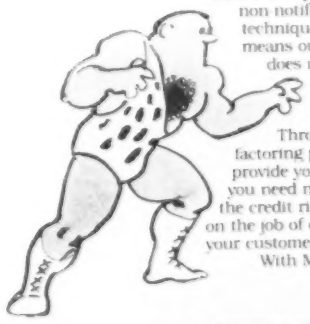

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